



Agenda Date: 6/7/06
Agenda Item: VA

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

WATER

IN THE MATTER OF THE PETITION OF APPLIED
WASTEWATER MANAGEMENT, INC. FOR APPROVAL)
OF (1) MUNICIPAL CONSENT BY THE TOWNSHIP OF)
UNION, HUNTERDON COUNTY, NJ; AND)
(2) EXTENSION OF ITS EXISTING "COWS" SEWER)
TARIFFS TO THE NEW SERVICE AREA) DOCKET NO. WE05050414

ORDER

(SERVICE LIST ATTACHED)

BY THE BOARD:

On May 9, 2005, Applied Wastewater Management Inc. ("AWWM" or "Company") filed a petition with the Board of Public Utilities ("Board") pursuant to N.J.S.A. 48:2-14, and in conformance with N.J.S.A. 48:2-12 and N.J.A.C. 14:1-5.5 for approval of a municipal consent granted by Union Township, Hunterdon County, and for approval of the application of its current Community Onsite Wastewater System ("COWS") tariff to the area described within the municipal consent.

AWWM provides sewerage collection, treatment, and disposal system service to approximately 3,750 customers in municipalities located in Union, Somerset, Morris, and Burlington Counties, in New Jersey.

On March 16, 2005, the Company obtained the consent of the Township of Union ("Township") to own and operate a wastewater system in an area known as Lookout Pointe. The system will serve 46 new single-family homes, one existing single family home, and eight townhome units.

Lookout Pointe development ("development") is being constructed by Toll Brothers. The project is located within State Planning Area PA-2. Although the location of the development is within the Highland Preservation Region, the proposed service territory is exempted from any restrictions imposed by the Highlands Water Protection and Planning Act because the necessary approvals were received prior to March 2004, thereby allowing the development to be grandfathered in.

The development is located near the existing wastewater system owned and operated by the Town of Clinton, however, that system lacks adequate capacity to service the franchise area. In

addition, the Township's DEP approved Water Quality Management Plan calls for Lookout Pointe to be served by an on-site wastewater system. Permits for this system have already been issued to Toll Brothers and will be transferred to the Company on closing. Although the wastewater treatment must be addressed through an on-site system, public water supply will be provided by the Town of Clinton. The wastewater treatment plant is designed with a capacity of 16,200 gallons per day and will be operated by one licensed operator who will visit the site four times a week. The Company will acquire the wastewater treatment facility for a cost not exceeding \$50,000. This amount represents the cost that will be paid by the Company to acquire the entire system according to the purchase agreement between Toll Brothers and AWWM. The assets have an estimated value of \$1,852,638. This amount is comprised of a wastewater treatment plant of \$1,033,561, the recharge field of \$549,077 and the estimated cost of mains of \$270,000. The acquisition cost is below the maximum allowable limits set by the Board's current extension rules for utility company participation in development projects. The Board's rules would authorize a refund as high as \$54,725 assuming there are no rate increases over the next ten years. This calculation is based on a total of 55 customer connections and a sewer rate of \$995.00 per year. Therefore, total annual revenue will be \$54,725 (55 x \$995).

The purchase agreement between Toll Brothers and AWWM provides for Toll Brothers to pay a monthly operating subsidy to cover the cost of maintenance and operation until the point where normal revenues are sufficient to cover all costs. The subsidy varies from a high of \$4,800 per month to a low of \$2,200 per month, and is related to the number of customers served by the wastewater system. The operating subsidy ceases when 50 of the anticipated 55 customers are connected to the system. The Company estimates annual operations costs, including taxes and capital costs at \$51,113.34. Some of the costs are variable, so actual costs should be less when fewer than 55 customers are connected to the system. Nevertheless, the developer paid operating subsidy will protect the Company and its existing customers until a break-even point is reached. At build-out, the treatment facility will be revenue positive.

On January 10, 2006, the municipal consent hearing for this matter was held at the Board's Newark office before Joseph Quirolo, Esq., the Board's duly designated Hearing Examiner.

On April 19, 2006, comments were received from the Division of the Ratepayer Advocate ("RPA"). The RPA voiced no opposition to approval of the proposed franchise but did recommend that approval of the petition should not include authorization to include in rate base the specific assets that will be acquired as a result of the petition.

Based upon the Board's review of the entire record of this proceeding, the Board HEREBY APPROVES the municipal consent granted by Union Township to Applied Wastewater Management, Inc.; and further HEREBY APPROVES the application of Applied Wastewater Management's Community Onsite Wastewater System tariff to the service territory contemplated within the herein approved municipal consent.

The approvals granted, hereinabove, shall be subject to the following provisions:

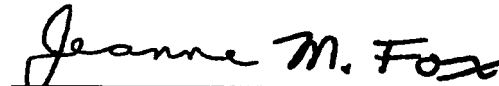
1. This Order shall not be construed as directly or indirectly fixing, for any purposes whatsoever, the value of any tangible or intangible assets now owned or hereinafter to be owned by Applied Wastewater Management, Inc.
2. This Order shall not effect nor in any way limit the exercise of the authority of this Board or of this State in any future petition or in any proceeding with respect to rates, franchises, service, financing, accounting, capitalization, depreciation or in any other matter affecting Applied Wastewater Management, Inc.

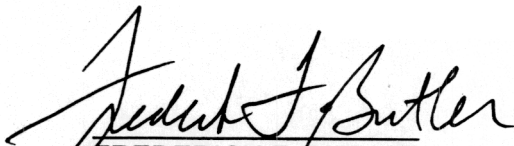
3. In an appropriate subsequent proceeding, the Company shall have the burden of demonstrating whether, and to what extent, any of the costs associated with this petition shall be allocated to ratepayers. Approval of this municipal consent does not include authorization to include in rate base the specific assets that will be completed as a result of the new service territory.


4. Approval of this municipal consent ordinance does not constitute Board approval of any costs or expenses associated with this petition. Any determination as to the appropriateness or reasonableness of the costs and expenses related to the franchise including, but not limited to, cost of construction, contributions in aid of construction, depreciation on contributed plant, the cost of connection, or any related capital improvements, and the allocation of such cost and expenses, shall be made in an appropriate subsequent proceeding.

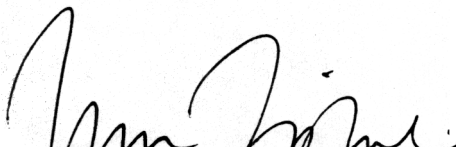
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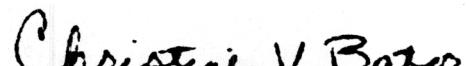
BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

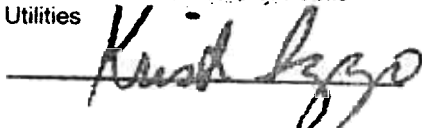

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



IN THE MATTER OF THE PETITION OF APPLIED WASTEWATER
MANAGEMENT, INC. FOR APPROVAL OF (1) MUNICIPAL CONSENT BY THE
TOWNSHIP OF UNION, HUNTERDON COUNTY, NJ; AND
(2) EXTENSION OF ITS EXISTING "COWS" SEWER TARIFFS TO THE
NEW SERVICE AREA

BPU DOCKET NO. WE05050414

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